



State Administration, Public Retirement, and Veterans' Affairs Interim Committee

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56th Montana Legislature

SENATE MEMBERS

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E.P. "PETE" EKEGREN
DON HARGROVE
GLENN A. ROUSH

HOUSE MEMBERS

MATT BRAINARD, CHAIRMAN
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TOM DELL
CAROL WILLIAMS

COMMITTEE STAFF

SHERI HEFFELFINGER
RESEARCH ANALYST
JOHN MacMASTER, ATTORNEY
DAVID NISS, ATTORNEY
JOANN JONES, SECRETARY

MINUTES

Disability and Retiree Health Care Subcommittee
February 29, 2000
Montana Association of Counties
Helena, Montana

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed. Committee tapes are on file in the offices of the Legislative Services Division. **Exhibits for this meeting are available upon request. Legislative Council policy requires a charge of 15 cents a page for copies of documents.**

COMMITTEE MEMBERS PRESENT

Sen. E.P. "Pete" Ekegren, Chairman
Sen. Sue Bartlett
Rep. Matt Brainard
Rep. Tom Dell
Sen. Glenn A. Roush

STAFF PRESENT

Sheri Heffelfinger, Research Analyst
David Niss, Attorney
Jo Ann Jones, Secretary

VISITORS

Visitors' list, Attachment #1.

CALL TO ORDER AND ROLL CALL

Sen. Ekegren called the meeting to order at 1:30 p.m. Roll call was noted. (See Attachment #2.)

DISABILITY COVERAGE STUDY

Exhibit #1: The First Key Policy Question on Disability

Exhibit #2: Issues and Options Working Paper

Issue #1: Should an employer-sponsored disability plan be recommended?

Sheri Heffelfinger, staff, said the threshold question for Subcommittee consideration is whether a disability plan should be offered separate from the retirement plan.

Sen. Bartlett asked if a person who is disabled has the right to participate in the health insurance plan. Joyce Brown, Bureau Chief, Employee Benefits Bureau, Department of Administration (DOA), said a disabled person is treated the same as a retired person for health insurance.

John McEwen, Administrator, State Personnel Division, DOA, asked if the disability insurance for the University system is only \$4.70 per month, why it could not be substituted for disability coverage in the Defined Benefit (DB) retirement plan. Mike O'Connor, Director, Public Employees Retirement Division (PERD), said the rights that a member of the trust fund currently enjoys cannot be taken away.

Rep. Brainard said one issue for the individual is the ability to draw on Social Security disability that is allowed in the Public Employees Retirement System (PERS), but not in the University's disability plan.

Tom Schneider, Montana Public Employees Association (MPEA), said incorporating all retirement systems in designing new disability coverage would be a mistake because

each system has a different disability provision. He said those members have a vested interest in their own plans, so it cannot be taken from them. He said that the MPEA did not strenuously argue for disability coverage in the Defined Contribution (DC) plan because those members who were interested in the DC plan wanted all of their money to go for investment.

Mr. O'Connor said that employers should not be segregated so that they have to seek out long-term disability coverage for their employees. He said that in North Dakota, DC plan participants wanted to find long-term disability insurance coverage but no insurance companies would assume the risk because the group was too small (approximately 675 members).

Tom Bilodeau, Montana Education Association/Montana Federation of Teachers (MEA/MFT), said he would prefer a disability plan that covers all employees. He said that no one expects to become disabled, but statistics show that half of all workers will be disabled for at least 6 months during their work lives. He said the rates for pooled coverage would be clearly better than what is available for employer or individually purchased coverage. He said disability coverage for all PERS members would maintain equity between the DB and DC plans.

Rep. Brainard said disability coverage should be separate from retirement benefits because all employees should be treated the same.

After discussion, the Subcommittee recommended an employer-sponsored disability plan.

Issue #2: Who should the disability plan cover?

Sen. Bartlett said she would like consideration to be limited to state employees (whether DB or DC plan participants) within PERS.

Rep. Brainard asked what the difference was between state and county employees who are members of PERS. Mr. O'Connor said state and county employees are treated the same within PERS. Rep. Brainard recommended considering all PERS members and then isolating the DC plan participants, if necessary, because the DB plan already has a disability plan that works.

Sen. Bartlett asked if creating a separate benefit for disability coverage would be administered by the DOA, like other health benefits. She said that considering all PERS members as one group would create difficulties because each group has its own separate health care plan. She said that if the administration of the disability coverage is removed from the retirement coverage, it may alter the currently available option to remain on the health care plan.

Rep. Brainard said it may be advisable to keep consideration only on DC plan members. He said one main disadvantage to considering only state employees who are in PERS is that the pool is cut, and there is a continuity involved in considering all PERS members.

Rep. Brainard asked if there is an advantage to self-funding the plan instead of purchasing an insurance plan. Ms. Brown said conventional wisdom is that the larger the group, the better it is to be self-funded.

Glen Leavitt, Benefits Director, Office of the Commissioner of Higher Education (OCHE), said that if only state employees are considered, smaller employers will be left out.

Mr. Schneider said that self-funded insurance would be simple because there is a long-term actuarial history.

Sen. Bartlett asked about setting up a separate disability trust. Mr. O'Connor said that it would make no sense to pull all disability coverage contributions into a separate trust and said that one concern would be whether it would qualify for IRS standards.

Rep. Brainard asked if the University system insures the PERS members. Mr. Leavitt said all employees are covered, but the PERS benefit is discounted if a disability occurs. All retirement funds and social security is discounted, with a minimum of \$100 per month payment.

Mr. Bilodeau said that school district employees have no disability coverage other than that provided by the PERS DB plan.

Sen. Bartlett said all PERS employees should be considered. Reps. Brainard and Dell said they concurred.

Mr. Bilodeau said that mandating DC members enrollment in a disability plan will be the difference between making it workable and not workable.

Rep. Brainard said that it would be difficult to offer optional disability coverage and the plan had to be all or nothing. Sen. Bartlett concurred. Rep. Dell said disability coverage had to be mandated because the DC choices would start unraveling if they could opt out of it.

Mr. O'Connor said that was a good starting point for examination of plans.

Mr. Schneider said he agreed with Mr. O'Connor because it is dangerous to have that option because those who opt out may become disabled and then return with demands. He said that making the plan all-inclusive helps keep the rates down, too.

RETIREE HEALTH CARE STUDY

Exhibit #3: Helping Public Employers and Employees Manage Escalating Health Care Costs

Ms. Heffelfinger said the yield of private investments has not kept pace with the inflation of health care costs. In presentation of Exhibit #3, she outlined three options: a VEBA (Voluntary Employees' Beneficiary Association), a 401(h), or mandatory 457 plan participation.

Rep. Dell asked if VEBA accounts are popular. Tim Shanks, Montana Police Protective Association (MPPA), said that many police departments in the Midwest are developing VEBA accounts, and that the Butte-Silver Bow police have just received that option.

Rep. Brainard asked how the selection of a VEBA board is done. Mr. Shanks said that Butte-Silver Bow used PEBSCO to design the plan, but is not sure whether PEBSCO also manages the VEBA.

Rep. Brainard said one of his questions is whether multiple systems will have to be brought together under one umbrella if independent employers begin involvement with VEBAs. He said he would like to know if a number of separate VEBAs can operate independently or if they would need to be coordinated.

Ms. Heffelfinger said that PEBSCO offers VEBA management.

Rep. Brainard asked if VEBA accounts are maintained individually, or are they pooled. Ms. Heffelfinger said they are pooled, like a trust fund.

Sen. Bartlett said the assets are pooled, but there must be a mechanism to determine how much an individual has contributed and drawn out. Ms. Heffelfinger said that is

an issue for investigation and said that she is uncertain how each share in the trust fund is valued.

Mr. Bilodeau said the Polson school has a VEBA provision, contracted through PEBSCO. He said that each month, \$10 per employee is contributed to the VEBA and segregated into employee accounts. The employee contributions are invested, mostly in mutual funds. During employment, the investments are determined by the employer and the administrative board. Upon retirement, the employee contributes termination pay, unused sick leave, or \$12,000 to the VEBA, and the employee assumes investment responsibility. Withdrawals can be made to pay for insurance premiums, but that is not limited to the former employer health care plan. The funds can also be used to pay co-payments. He said the main problem with the system is that \$10 per month per employee does not accumulate to a great amount and even with the other contributions of funds at the time of retirement, insurance premiums eat up the account balance very quickly, lasting about 3 or 4 years. Between that point and Medicare eligibility, health care costs have to be paid from retirement income. He distributed copies of **Exhibit #4**, Post-retirement health care: Making the \$ work for you before and after Medicare.

Sen. Bartlett asked if the Butte-Silver Bow VEBA is an employer contribution. Mr. Shanks said the VEBA was a negotiated item in union contract consideration, but that a percentage of a raise given to an employee goes to the VEBA.

Ms. Brown said that there is a substantial contribution by the state to retirees because, although the retiree pays the same health care premiums as active employees, their actual health costs are much higher.

Sen. Bartlett said health care after retirement is a burning issue for retirees and those nearing retirement. She said that she would like to explore what would happen if people could roll retirement pay-outs into an account to help pay health care premiums, for all PERS members, not just state employees.

Rep. Brainard said that he would like further information on VEBA accounts because it is incumbent on the Subcommittee to examine it because it will eventually have to be dealt with. Rep. Dell said that a VEBA account might be an increment of the solution.

Sen. Bartlett said that she did not feel confident that she fully understands the differences between a VEBA and a 401(h).

Ms. Heffelfinger said that the people who know the most about VEBAs charge for their time. Rep. Brainard said that he saw no reason why public agencies should be charged to receive that information. Ms. Heffelfinger said that she would attempt to find adequate information outside of the companies that she mentioned.

Sen. Bartlett asked if the IRS concerns had been resolved since last interim. Ms. Heffelfinger said she would check for any progress that may have been made.

OTHER BUSINESS

Ms. Heffelfinger asked when the next meeting should be held, and what should be included on the agenda.

Sen. Ekegren asked if waiting until May to meet would help ease the workload. Ms. Heffelfinger recommended meeting again in March because staff will require a clearer idea of direction before cost estimates can be done. Suggested agenda items include options not yet discussed, mandatory rollover of termination pay, and an IRS update on VEBA accounts.

Sen. Bartlett distributed copies of **Exhibit #5**, listing of onset of disability by age, provided by Mr. O'Connor.

ADJOURNMENT

There be no further business to come before the Subcommittee, the meeting was adjourned at 5:05 p.m. after a motion by Rep. Brainard.

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